

20 January 1956

SOVIET BLOC AID TO NON-BLOC COUNTRIESThe role of foreign aid in Soviet politico-economic relations

Commencing in early 1954 the Soviet Union began to augment its efforts to improve commercial relations with non-Bloc countries by instituting a program of economic and technical aid. As it has gained momentum in recent months, this program appears to have two principal aims -- first, to neutralize U.S. economic influence in certain capital-deficient countries of Asia and the Near East, and second, to undermine the Western politico-military position in those areas adjacent to the Soviet Union.

The Soviets have used their economic assistance offers to propagandize the effectiveness of the Soviet system in accomplishing rapid industrial and technological development.

The role of the Soviet Union in directing the Bloc aid program

Reports from various sources indicate that the USSR has assumed a central role in establishing the framework within which the Bloc aid program operates. Judging by these reports and their reflection in the known activities of individual Bloc countries, primary responsibility for the Bloc aid program in the Middle East and Indonesia has been placed with the European satellites, whereas the USSR has been cast in the dominant role in Afghanistan, India, Burma, and Yugoslavia. The foregoing jurisdictions have been by no means exclusive.

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In addition to encouraging the other Bloc countries to develop their own aid programs, the USSR has used them as intermediaries in special cases. The barter arrangements under which a significant proportion of Egyptian cotton and rice surpluses were quickly purchased by Communist China, Poland, Czechoslovakia, East Germany, Hungary, and the USSR bear evidence of coordinated effort. On the whole Communist China's role has been an ancillary one.

The pre-World War II commercial experience and contacts of the Eastern European Satellites make them ideally suited to act as the bloc's entering wedge in promoting trade and aid in the Middle East. Furthermore, an increase in Middle East requirements for certain categories of capital goods produced in Eastern Europe appears to coincide with a decrease in Soviet demand for them. In addition to the economic considerations involved, the establishment of trade missions serves as an intermediate step in securing diplomatic recognition for East Germany and Communist China.

The degree of geographic division of labor established between the Soviet Union and the Eastern European Satellites tends to maximize Soviet control of the Bloc aid effort in areas contiguous to the USSR on the one hand, and to minimize direct Soviet involvement in the explosive Middle East political situation on the other.

The character of the aid programs

The Soviet Bloc technical assistance program has encompassed both

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prestige projects and capital development projects. Concomitantly the Bloc has supplied industrial equipment and technicians and planning assistance in various fields. A most appealing aspect of the Bloc aid program has been the payment terms. The Bloc has offered long-term, low-interest loans with payments which may be made in local currencies or through barter arrangements.

The Soviet Bloc, in line with the high priority which the underdeveloped countries have placed on economic development, has offered capital development projects to these countries. The Soviet Bloc has stressed its readiness to provide technical assistance in the form of the supply of Bloc industrial equipment on credit and the services of Bloc technicians to aid in the construction and operation of these projects. A number of contracts for capital development projects which have been signed have included these features.

The Soviet Union is sending Soviet experts to several countries to make surveys and recommendations for development in various fields. A Russian agricultural team is slated to go to Burma to prepare a program for diversified agricultural development. Seven Soviet experts arrived in India in November to assist in petroleum exploration and production and to assist in developing the exploitation of non-ferrous metals. Soviet professors are being sent to work at the technological institute being established at Bombay with the USSR's assistance. Soviet doctors have been sent to the

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pediatric center in New Delhi.

The payment terms offered by the Soviet Bloc have made it difficult for non-Bloc countries to refuse bloc offers of aid. Soviet long-term credits have interest rates from 2-3% which may be repaid over extended periods of time in local currencies or through barter arrangements. The bloc countries have made arrangements under which non-Bloc countries will receive Bloc capital equipment and assistance in exchange for exportable commodity surpluses unsalable in other markets. In Egypt and Burma the Bloc has made arrangements to take large quantities of exportable surpluses of cotton and rice in exchange for Bloc industrial equipment and the services of Bloc technicians.

The magnitude of the Bloc aid program

Total long-term credits extended by the Bloc to non-bloc countries is estimated to be on the order of 600 million US dollars, 70 percent of which has been granted by the Soviet Union. If the estimated value of loans currently under serious consideration is added to the foregoing sum it would amount to approximately 1 billion US dollars, with the USSR still representing about 70 percent of the total. Tables I through III show the composition of estimated Bloc credits to non-Bloc countries.

Principal recipients of Bloc aid

Yugoslavia has been the principal recipient of Bloc aid, accounting for

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a third of all credit extended and for nearly a half of that provided by the USSR. Other important claimants have been Afghanistan and India, each receiving about a quarter of the amount granted by the Soviet Union to date.

The significance of Egypt in Bloc aid plans at this stage is reflected in its ranking second only to Yugoslavia. Egypt has received a quarter of all credit assistance extended by the Bloc, none of which has been furnished by the Soviet Union. Table V shows the distribution of all Bloc credits extended to non-Bloc countries.

The future of the Bloc aid program

Judging by the increased attention being devoted to the furtherance of their foreign aid program by high Soviet officials as well as Bloc commercial and technical representatives abroad, a significant expansion of Bloc aid to non-Bloc countries may be anticipated. Based only on the estimated value of credits currently under serious consideration a minimum overall increase of 50 percent may be anticipated within the next few months, with the USSR contributing approximately two-thirds of the increased credits.

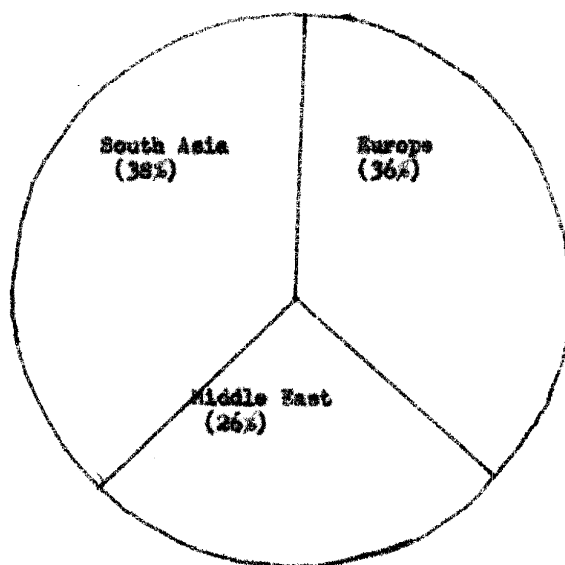
Tables IV through VI show the distribution of Bloc credits to non-Bloc countries which may be anticipated if credits currently under serious consideration are finalized.

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Table I

Distribution of Soviet Bloc Credits to Non-Bloc Countries
(Total \$620 million)

By Recipient Area



By Creditor

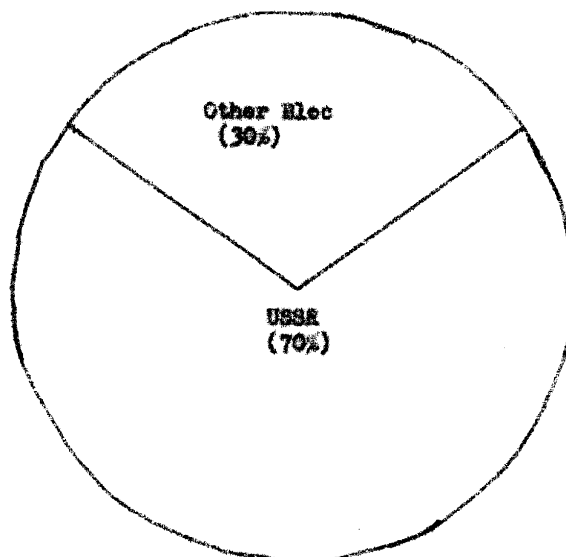


Table II

Estimated Credits Extended by the Soviet Bloc to Non-Bloc Countries

(millions of U.S. dollars) ^{a/}

<u>Recipient</u>	<u>USSR</u>	<u>Other Bloc</u>	<u>Total Bloc</u>
Total	432	188	620
Middle East		161	161
Egypt	-	147	147
Iran	-	3	3
Syria	-	8	8
Turkey	-	3	3
South Asia	208	27	235
Afghanistan	107	5	112
India	101	4	105
Indonesia	-	18	18
Europe	224	-	224
Finland	20	-	20
Yugoslavia	204	-	204

^{a/} Figures have been rounded to the nearest million~~SECRET~~

Table III

Percentage Distribution of Estimated Soviet Bloc Credits Extended to
Non-Bloc Countries

<u>Recipient</u>	<u>USSR</u>	<u>Other Bloc</u>	<u>Total Bloc</u>
Total	100	100	100
Middle East	-	86	26
Egypt	-	78	24
Iran	-	2	a/
Syria	-	4	1
Turkey	-	2	a/
South Asia	48	14	38
Afghanistan	25	3	18
India	23	2	17
Indonesia	-	9	3
Europe	52	-	36
Finland	5	-	3
Yugoslavia	47	-	33

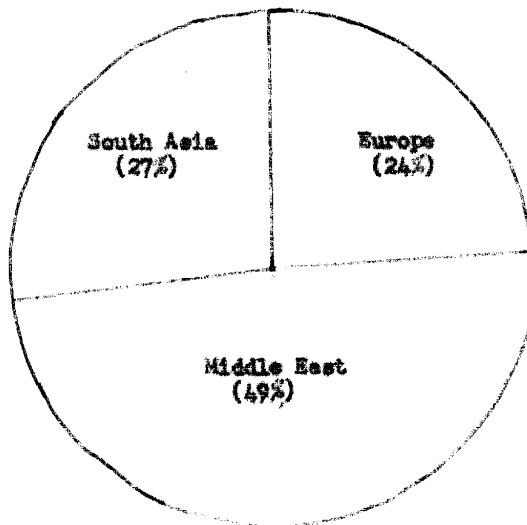
a/ Less than 1 percent

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Table IV

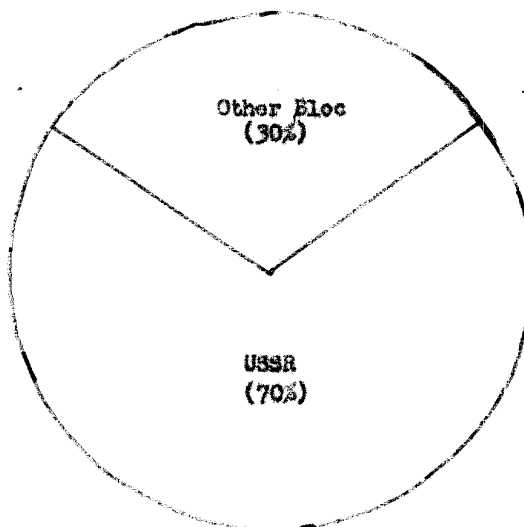
Distribution of Soviet Bloc Credits Extended and Under Serious Consideration

(Total approximately \$945 million)

By Recipient Area



By Creditor



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Table V

Estimated Soviet Bloc Credits Extended and those Under Serious
Consideration by Non-Bloc Countries

(millions of U.S. dollars) a/

<u>Recipient</u>	<u>USSR</u>	<u>Other Bloc</u>	<u>Total Bloc</u>
Total	662	281	943
Middle East	228	238	466
Egypt	200	147	347
Lebanon	-	3	3
Iran	-	3	3
Saudi Arabia	-	5	5
Sudan	-	3	3
Syria	22	74	96
Turkey	6	3	9
South Asia	210	43	253
Afghanistan	107	15	122
India	103	4	107
Indonesia	-	24	24
Europe	224	-	224
Finland	20	-	20
Yugoslavia	204	-	204

a/ Figures have been rounded to the nearest million.

Table VI

Percentage Distribution of Soviet Bloc Credits Extended and Those Under Serious Consideration by Non-Bloc Countries

<u>Recipient</u>	<u>USSR</u>	<u>Other Bloc</u>	<u>Total Bloc</u>
Total	100	100	100
Middle East	34	85	49
Egypt	30	53	37
Lebanon	-	1	a/
Iran	-	1	a/
Saudi Arabia	-	2	a/
Sudan	-	1	a/
Syria	3	26	10
Turkey	1	1	1
South Asia	32	15	27
Afghanistan	16	5	13
India	16	1	11
Indonesia	-	9	3
Europe	34	-	24
Finland	3	-	2
Yugoslavia	31	-	22

a/ Less than 1 percent

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